15 Tips for Finding the *Right* Annuity

By Terry Heys

Throughout the years, the financial services market has truly evolved. One way it has done so is by continuing to create and offer products that better fit the needs of consumers, which can allow you to not just pick a particular product, but rather to more closely customize the plan that will take you to exactly where you want to go.

Before moving forward on any type of financial vehicle, though - including an annuity - it is important that you understand how the product works, how much it will cost, and what the potential advantages and drawbacks may be.

It is also essential to determine how the annuity will fit into your specific financial plan. This can help you in narrowing down not just how to find an annuity, but also how to find the *right* annuity for you.

Here are 15 Tips that will help get you closer to the annuity that's best for your specific financial needs and goals:

Tip #1*: Determine whether an annuity is the right product for you.* First and foremost, you will need to determine if an annuity is even the right product for you at all. While these financial vehicles can offer many benefits such as guaranteed lifetime income (Footnote 1), for one reason or another, an annuity may not be the right fit for everyone. Therefore, you should ask yourself some key questions prior to moving forward, such as:

- How much income will you need in addition to what you will receive from Social Security and your pension (if applicable)?
- Will you need supplemental income for anyone else in addition to yourself?
- How long do you plan on leaving money in the annuity? (Keep in mind that annuities are long-term commitments).
- When do you plan on needing the annuity's income payments?
- Will you be able to gain access to the funds from the annuity if you should need them?
- Do you want a guaranteed interest rate and little to no risk of losing the principal (Footnote 1), or are you willing to risk losing principal for the chance of higher earnings that are not guaranteed?
- Do I have enough cash reserves to meet expected needs?

Tip #2: *Decide how you will be using the money that is in the annuity.* For example, are you using the funds to save for retirement, to generate a retirement income - or both? There are many different types of annuities available in the marketplace today, so knowing how - and how long- you plan to use the product, will help you to make a more suitable choice.

Tip #3: *Understand the types of annuities that are available*. Although annuities are considered long-term vehicles, some will begin paying out income very soon, while others will allow you to make deposits for many years prior to converting over to an income stream. Just like buying a car, there are lots of models that can get you from Point A to Point B, but the one that's best for your specific needs will vary a great deal based on unique features and benefits.

Tip 4*: Have an idea of when you plan on using the money that's in the annuity*. When you will need the annuity's income can be a key factor in what type of annuity you choose. Immediate annuities begin making income payments shortly after their purchase, while deferred annuities will allow the funds inside your annuity to accumulate over time before converting over to an income stream in the future. Because annuities are considered to be long-term endeavors, if you feel that you will need the funds that you've deposited within the next 10 years, then a deferred annuity may not be your best option. This is especially the case if you will need the funds prior to age 59 1/2, as additional IRS penalties could apply.

Tip #5*: Know what payout options are available*. Knowing what payout options are available will also help you in finding the annuity that is right for you. Typically, annuities will offer several different choices for income payout. For example, you can generally choose to have income paid for a certain number of years such as 10, 15 or 20. Or, alternatively, you can choose to have the annuity pay out an income for the remainder of your life - regardless of how long that may be. In addition, most annuities offer joint income options, which means that the annuity will pay income to both you and your spouse (or you and another individual) for the remainder of both individuals' lives. (Footnote 2)

Tip #6: *Understand your risk tolerance*. Just as when deciding upon various investments, it is equally important to understand your risk tolerance when choosing the best annuity for you. Your risk tolerance will depend on several different factors, such as your age, your investment time horizon, and your retirement goals. The good news is that annuities can offer a wide range of different options to choose from based on your specific risk tolerance, as well as the financial goals that you're trying to accomplish.

Tip #7: *Know the tax implications*. Annuities can have a number of tax advantages, such as allowing the funds inside of the account to grow on a tax-deferred basis. It is important, however, to also understand any other potential tax implications that may also be present in the annuity transaction. For instance, if you are purchasing the annuity contract for an Individual Retirement Account (IRA) or another type of tax-deferred retirement program, be sure to consult with a tax professional regarding eligibility and tax consequences in order to ensure that you are following all of the pertinent regulations. Some annuity withdrawals are subject to ordinary income tax versus capital gains.

Tip #8: *Shop around*. Once you have a good idea of the type of annuity that's right for you and your specific goals, you will still need to shop around in order to find the annuity that's best for you. There are lots of insurance companies that offer annuities - and each can have differing guarantees on their products, as well as overall company reputations when it comes to financial strength and claims paying ability.

***Tip #9**: Know what happens in various situations or circumstances*. Here, for instance, know what happens if you die before receiving some or all of the annuity's income payout. Depending on the type of annuity that you have and how your payments are calculated, there could be different outcomes. With some payout options, a named beneficiary could receive the money in your annuity when you pass away. Other options simply pay out during your lifetime, and the payments stop when the annuitant dies.

***Tip #10**: Understand your investment / index options*. This will depend on the type of annuity that you choose. For example, variable annuities will typically offer a range of options, from aggressive growth funds to more conservative investments, such as money market subaccounts and fixed rate instruments. They can also offer features that provide protection for your investments against downside market risks. (Footnote 1) Index annuities generally provide you with one or more underlying index options on which to base your return. On the other hand, fixed annuities can minimize your overall risk by locking in a fixed rate of return.

***Tip #11**: Make sure you understand how the annuity's guarantees work*. Many annuities will offer certain guarantees to their holders. Some of these guarantees may include guaranteed lifetime income payments, a guaranteed death benefit, guaranteed minimum accumulation benefits, and guaranteed minimum withdrawal benefits. These products, however, can vary a great deal from one insurer to another. Therefore, it is essential to understand how a particular contract you are considering will work prior to moving forward with it. It is also important to note that the products are backed by the claims paying ability of the underlying insurer.

Tip #12*: Know what potential charges and fees you will / may be subject to*. While not all annuities will have charges and fees, there are others that will - so it is important that you are aware of what you could be charged with in certain situations. For instance, a surrender charge will typically be applied if you decide to cancel the annuity within the first several years of the contract or if you withdraw more than a certain amount of the funds you have invested. Over time, however, the percentage that is charged for surrenders will usually decline until the surrender charge eventually disappears altogether. There are also other fees and charges that could exist, so you should consult with your financial advisor in order to determine what these are and when they may be enforced.

Tip #13*: Will your beneficiaries receive a benefit in the event of your death?* This is a critical question. When choosing to provide for beneficiaries, some build this into an annuity, others choose an annuity that does not include a death benefit, but use other types of investments to provide for beneficiaries.

Tip #14*: Check out the insurer*. Certainly, a key goal when purchasing an annuity is to create long-term income security - so, you will want to be sure that the insurer you purchase the annuity from is stable financially and has a good reputation for paying out its claims. You can check the insurance company's credit rating by reviewing the grades that are given by ratings agencies such as A.M. Best, Standard & Poor's, Moody's, or Fitch.

Tip #15*: Ask questions*. Even if you've read over all of the information provided, if there's something that you still aren't sure about, ask. Remember what they say - there really are no silly questions. And, better to have your answers now, than to find out later, and wish you'd known prior to purchasing a product that may or may not truly been the one that was right for you.